

## Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 AGRE-00 CEA-01 CIAE-00  
COME-00 DODE-00 FRB-03 H-01 INR-07 INT-05 L-03  
LAB-04 NSAE-00 NSC-05 PA-01 AID-05 SS-15 STR-04  
ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 FEAE-00  
OMB-01 XMB-02 GSA-02 /090 W  
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R 171437Z AUG 77

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7329

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FOR: EB/ISM - MR. WALTER LENAHAH

E.O. 11652: N/A

TAGS: EMIN, ETRD, ITC

SUBJECT: TIN -- U.S. CONTRIBUTION TO ITC BUFFER STOCK

REF: THIGPEN/LENAHAH TELCON AUGUST 16

1. QUOTED BELOW IS THE FIRST DRAFT OF A PAPER WHICH THE ITC SECRETARIAT PROPOSES TO SUBMIT TO THE BUFFER FINANCE COMMITTEE IN CONNECTION WITH A POSSIBLE U.S. CONTRIBUTION TO THE BUFFER STOCK. PAPER CONSISTS OF A MEMORANDUM WHICH IN ITS PARAGRAPH 6 SUGGESTS TWO ALTERNATIVES TO THE EVALUATION PROBLEM AND AN ANNEX LIST OF 17 EXPLANATORY NOTES WHICH APPEAR TO APPLY PRIMARILY TO ALTERNATIVE 6(B)

2. THE SECRETARIAT EMPHASIZES ROUGH DRAFT NATURE OF THIS PAPER. THE COMPUTATIONS HAVE NOT REPEAT NOT BEEN DOUBLE CHECKED. THEY ARE NOT PARTICULARLY ENAMORED OF EITHER ALTERNATIVE 6(A) OR 6(B) BUT SEEM TO HAVE A SLIGHT PREFERENCE FOR 6(B) SINCE THIS AT LEAST WOULD GET AROUND THE PROBLEM OF APPORTIONMENT OF PROFITS OR DEFICIT FOR LIMITED OFFICIAL USE

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SALES OF TIN, SINCE UNDER 6(B) THERE WOULD BE A SINGLE ACQUISITION DATE AND PRICE UPON WHICH TO BASE COMPUTATIONS.

3. WOULD PROBABLY BE NEATER FROM SECRETARIAT'S POINT OF VIEW IF ARRANGEMENT COULD BE MADE TO SELL TIN ON BEHALF OF USG UP TO AGREED DOLLAR FIGURE (I.E. US\$48.3 MILLION)

COMPUTED ON SAME BASIS AS IF MONEY RATHER THAN METAL CONTRIBUTION WERE MADE. ANOTHER METHOD WHICH WOULD BE "NEATER" WOULD BE FOR THE U.S. TO DECIDE TO CONTRIBUTE UP TO 48.3 MILLION DOLLAR'S WORTH OF METAL WITHOUT REGARD TO ANY CALCULATION OF PRO-RATA SHARE. HOWEVER, AFTER DISCUSSING POINT, EMBOFF NOT REPEAT NOT CONVINCED THAT THIS WOULD PROVIDE THE GUARANTEE WE ARE SEEKING NOT TO CONTRIBUTE ON LESS FAVORABLE TERMS -- WE MIGHT SUSTAIN A LOSS AT TIME OF LIQUIDATION -- SEE PARA 5 OF DRAFT TEXT BELOW.

4. SECRETARIAT REPRESENTATIVES WERE NOT VERY SURE OF LEGAL BASIS FOR ALTERNATIVES SUGGESTED OR ON POSSIBLE PRECEDENT IMPLICATIONS. THEIR MAJOR CONCERN, HOWEVER, SEEMS TO BE NOT SO MUCH ONE OF LEGALITIES AS ONE THAT MEMBERS OF THE COMMITTEE MIGHT OPPOSE THROUGH INABILITY TO FORESEE FULL IMPLICATIONS OF COURSE ADOPTED.

5. BOTH ALLEN AND ENGEL STRESSED NEED TO TREAD CAREFULLY WITH SPECIAL ATTENTION TO SENSITIVITIES OF MEMBERS OF THE COMMITTEE. WITH REGARD TO DISCUSSING PRESENTATIONAL TACTICS AS WELL AS POSSIBLE PITFALLS IN ANY FORMULA CHOSEN, DEPARTMENT MAY WISH TO CONSIDER INVITING SECRETARIAT TO SEND A REPRESENTATIVE TO WASHINGTON IN ORDER TO CONSULT ON MATTER.

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6. BEGIN TEXT:

"TO: MEMBERS BUFFER FINANCE COMMITTEE

FROM: EXECUTIVE CHAIRMAN

CONTRIBUTION IN TIN METAL UNDER ARTICLE 22A:

THE COUNCIL AT ITS SIXTH SESSION ON 15 JULY 1977 RESOLVE AS FOLLOWS:

"WHEREAS ONE CONSUMING MEMBER GOVERNMENT HAS INDICATED ITS DESIRE TO MAKE A CONTRIBUTION UNDER ARTICLE 22(A) TO THE BUFFER STOCK IN TIN METAL, THE COUNCIL RESOLVES THAT WHEN A MEMBER COUNTRY CONTRIBUTES TIN METAL TO THE BUFFER STOCK THIS CONTRIBUTION SHOULD NOT BE MADE UNDER CONDITIONS LESS FAVOURABLE THAN IF THE CONTRIBUTION HAD BEEN MADE IN CASH. THE COUNCIL FURTHER RESOLVES THAT THE BUFFER FINANCE COMMITTEE SHOULD UNDERTAKE A REVIEW OF THE ASPECTS OF A CONTRIBUTION OF TIN METAL IN ORDER TO DETERMINE THE MANNER OF CONTRIBUTING TIN SO AS TO AVOID FINANCIAL LOSS BY CONTRIBUTING COUNTRIES".

2. THE QUESTION OF THE CONTRIBUTION IN METAL BY A MEMBER GOVERNMENT RAISES PROBLEMS OF VALUATION OF THE METAL. TAKING AS AN EXAMPLE A CONTRIBUTION BY THE USA, WHOSE PERCENTAGE IS 30.16, A CONTRIBUTION AS A SHARE OF 20,000 TONNES WOULD BE 6032 TONNES. FOR THE PURPOSE OF LIQUID-

ATION UNDER ARTICLE 25(F)(I) THE CONTRIBUTION WOULD BE

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EVALUATED FOR THE PURPOSE OF CALCULATING THE US CONTRIB-  
UTION AT THE FLOOR PRICE IN EFFECT ON THE DATE THE CON-  
TRIBUTION WAS MADE.

3. ON THE ASSUMPTION THAT THE GSA SELLING PRICE AT THE  
TIME OF CONTRIBUTION WAS US\$5.15 PER LB AND THE FLOOR  
PRICE REMAINED AT M\$1200 PER PIKUL THE VALUE OF 6032  
TONNES AT THE GSA SELLING PRICE WOULD BE US\$68,485,458  
WHICH CAN BE COMPARED WITH THE VALUATION TO BE PUT ON TH  
SAME TONNAGE UNDER ARTICLE 25(F)(I) OF US\$48,259,580 I.E  
A DIFFERENCE OF US\$20,225,878.

4. IT IF WERE DECIDED THAT THE CONTRIBUTION IN METAL  
SHOULD BE SCALED DOWN SO THAT THE VALUE OF THE TONNAGE  
CONTRIBUTED DID NOT EXCEED US\$48,259,580 WHEN EVALUATED  
AT THE GSA SELLING PRICE, ASSUMED FOR THIS EXERCISE TO B  
\$5.15 PER LB, THEN THE CONTRIBUTION WOULD AMOUNT TO 4250  
M/T.

5. IN THE EVENT THAT A CONTRIBUTION OF 4250 M/T WERE MAD  
WHICH, BASED ON THE GSA PRICE WOULD BE WORTH US\$48,259,-  
580, THE VALUATION ACCORDED TO THIS TONNAGE UNDER ARTICL  
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25(F)(I) AT A FLOOR PRICE OF M\$1200 PER PIKUL WOULD BE US\$34,002,522 I.E. A DIFFERENCE OF US\$14,257,068.

6. THERE IS A FURTHER PROBLEM: IF THE CONTRIBUTION IS VALUED AT THE GSA SELLING PRICE AND THE MARKET PRICE FALLS THE TIN COULD BE SOLD AT A LOSS TO OTHER CONTRIBUTORS. TO MEET THESE PROBLEMS IT WOULD BE POSSIBLE EITHER (A) TO TAKE THE METAL INTO THE BOOKS AT A NOTIONAL PRICE EQUIVALENT TO THE GSA PRICE ON THE DATE OF CONTRIBUTION BUT TO MAKE A SUBSEQUENT ADJUSTMENT SO THAT THE VALUATION EVENTUALLY EQUALS THE ACTUAL RETURN TO THE BUFFER STOCK ON SALE OF THE TIN OR IF ANY TIN REMAINS AT THE DATE OF LIQUIDATION AT THE VALUE AGREED BY THE COUNCIL UNDER ARTICLE 25(F)(II); OR (B) TO VALUE THE METAL IN THE BOOK AT THE GSA PRICE ON THE DATE OF CONTRIBUTION BUT IN ORDER TO AVOID LOSS TO INSTRUCT THE BUFFER STOCK MANAGER TO SELL ONLY AT A PRICE WHICH WOULD GIVE A RETURN GREATER THAN THE CONTRIBUTION VALUE. THIS METHOD IS SET OUT IN DETAIL IN THE ANNEX.

7. EITHER OF THESE PROCEDURES WOULD BE A DEPARTURE FROM THE NORMAL PRACTICE UNDER THE AGREEMENT BUT THE COUNCIL MAY WISH TO MAKE USE OF ARTICLE 22(A) (THE CONDITIONS TO BE AGREED UPON BY THE COUNCIL) AND ARTICLE 25(B) (SUBSTITUTION OF OTHER LIQUIDATION ARRANGEMENTS). SUBMITTED FOR THE CONSIDERATION OF THE COMMITTEE. PROPOSED CONTRIBUTION BY THE USA TO THE BUFFER STOCK OF THE FIFTH INTERNATIONAL TIN AGREEMENT IN TIN METAL.

- 1) ARTICLE 22(A) LAYS DOWN THE RIGHT OF CONSUMING COUNTRIES TO MAKE AN "ADDITIONAL" CONTRIBUTION TO THE BUFFER STOCK IN TIN METAL.
  - 2) THE CONDITIONS UNDER WHICH SUCH ADDITIONAL CONTRIBUTION IS MADE WOULD BE AGREED UPON BY THE COUNCIL.
  - 3) IT WOULD THEREFORE APPEAR TO BE WITHIN THE COMPETENCE OF THE COUNCIL TO MAKE OR ACCEPT ANY CONDITIONS WHICH THEY
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COUNCIL SEES FIT.

- 4) REFUND OF ANY "ADDITIONAL" CONTRIBUTION CAN ALSO BE MADE IN TIN METAL IF THE COUNCIL SO DECIDES.
- 5) THE USA GOVERNMENT REQUESTS THAT ANY CONTRIBUTION MADE IN TIN METAL SHOULD NOT BE MADE UNDER CONDITIONS LESS FAVOURABLE THAN IF THE CONTRIBUTION HAD BEEN MADE IN CASH, WHICH IS UNDERSTOOD TO MEAN THAT THE TIN CONTRIBUTION SHOULD BE TAKEN INTO THE BOOKS OF THE BUFFER STOCK AT THE PREVAILING MARKET PRICE.
- 6) THE COUNCIL AGREED THAT THE CONTRIBUTION IN TIN METAL SHOULD NOT RESULT IN FINANCIAL LOSS BY CONTRIBUTING

COUNTRIES, AND THE TERM "CONTRIBUTING COUNTRIES" WAS UNDERSTOOD TO INCLUDE THE USA AND ALL PREVIOUS AND FUTURE CONTRIBUTORS TO THE FIFTH ITA BUFFER STOCK.

7) ARTICLE 25(F) LAYS DOWN THE METHOD OF EVALUATING THE SHARE OF EACH COUNTRY'S CONTRIBUTION FOR THE PURPOSES OF LIQUIDATION.

8) ARTICLE 25(F)(I) STATES THAT CONTRIBUTIONS IN TIN SHAL BE VALUED AT THE FLOOR PRICE AT THE TIME SUCH CONTRIBUTIO HAD BEEN MADE.

9) ARTICLE 25(B) APPEARS TO GIVE THE COUNCIL THE POWER TO SUBSTITUTE OTHER ARRANGEMENTS FOR PARAGRAPH (F) OF THAT ARTICLE, AND MIGHT THEREFORE, BY IMPLICATION, BE INTERPRETED TO ALLOW THE VALUATION OF A CONTRIBUTION IN TIN AT ANOTHER PRICE, I.E. AT A PRICE OTHER THAN THE FLOOR PRICE AT THE TIME THE CONTRIBUTION WAS MADE.

10) IF ARTICLE 25(B) GIVES THE COUNCIL THE RIGHT TO ALLOW A VALUATION OF A CONTRIBUTION AT A PRICE OTHER THAN THE FLOOR PRICE AT THE TIME OF CONTRIBUTION, THEN BY PROCESS OF ARTICLES 22(A) AND 25(B) ANY CONTRIBUTION IN TIN METAL COULD BE VALUED AT THE MARKET PRICE ON THE DATE THE CONTRIBUTION WAS MADE.

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11) ARTICLE 28(C)(I) STATES THAT WHEN THE MARKET PRICE I ABOVE THE CEILING, AND UNLESS INSTRUCTED TO THE CONTRARY

BY THE COUNCIL, THE BUFFER STOCK MANAGER SHALL OFFER FOR SALE ANY TIN WHICH HE HOLDS AT THE MARKET PRICE UNTIL THE PRICE SHALL HAVE FALLEN BELOW THE CEILING OF HIS TIN IS EXHAUSTED.

12) IF THE COUNCIL ACCEPTED A CONTRIBUTION TO THE BUFFER STOCK IN METAL AND ALLOWED THAT CONTRIBUTION TO BE VALUED AT THE MARKET PRICE, AND THEREAFTER THE MANAGER SOLD THAT METAL IN ACCORDANCE WITH ARTICLE 28(C)(I), AT A LOWER PRICE A LOSS WOULD BE INCURRED BY THE BUFFER STOCK AND, IP SO FACTO, BY ALL THE CONTRIBUTING COUNTRIES.

13) THE COUNCIL COULD DECIDE, UNDER ARTICLE 28(C)(I) AND ARTICLE 29, TO INSTRUCT THE MANAGER ONLY TO SELL AS NECESSARY TO PREVENT THE PRICE RISING TOO STEEPLY, BUT NOT TO SELL AT LESS THAN THE MARKET PRICE AT WHICH THE CONTRIBUTION IN TIN HAD BEEN MADE.

14) IF THE PRICE CONTINUED TO RISE, THE TIN AT THE DISPOSAL OF THE BUFFER STOCK COULD THEN BE LIQUIDATED AT A LIMITED OFFICIAL USE

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PROFIT.

15) IF THE PRICE FELL AND REMAINED BELOW THE "CONTRIBUTION" PRICE, THE TIN WOULD REMAIN IN THE BUFFER STOCK AND COULD BE RETURNED TO THE CONTRIBUTING COUNTRY, I.E. THE USA, AT THE END OF THE AGREEMENT, AS TIN METAL.

16) THE ONLY PROBLEM WHICH MIGHT ARISE IN THIS EVENTUALITY WOULD BE WHETHER THE CONTRIBUTION IN TIN METAL WHICH REMAINED UNSOLD SHOULD BE ASSESSED FOR A PROPORTION OF THE PROFIT OR THE LOSS OF THE BUFFER STOCK OPERATIONS

17) TO OBVIATE THIS PROBLEM, THE TERMS UNDER ARTICLE 22( UNDER WHICH THE CONTRIBUTION IN TIN IS ACCEPTED COULD SPECIFICALLY EXCLUDE ANY TIN WHICH REMAINS UNSOLD AT THE END OF THE AGREEMENT FROM INCLUSION IN THE PROFIT AND LOSS ACCOUNT OF THE BUFFER STOCK."

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## Message Attributes

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**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009